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In The
Supreme Court of the United States

PANORAMA, INC.,

Petitioner,

v.

ZOMBA ENTERPRISES, INC.
and ZOMBA SONGS, INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITIONER'S REPLY BRIEF

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TABLE OF CONTENTS

REPLY BRIEF OF PETITIONER PANORAMA, INC. 1

I. ZOMBA'S EMPHASIS ON PANORAMA'S "WILLFULNESS" INDICATES THE PUNITIVE NATURE OF THE AWARD THAT SHOULD INVOKE 5TH AND 8TH AMENDMENT SCRUTINY. 1

II. UNDER CAMPBELL, THERE IS NO PRESUMPTION AGAINST FAIR USE BECAUSE OF COMMERCIALITY, ONLY A PRESUMPTION OF MARKET HARM IN A CASE OF "MERE DUPLICATION", WHICH THIS IS NOT. 6

III. THE SIXTH CIRCUIT AND NINTH CIRCUIT ARE AT ODDS OVER ANALYZING THE TRANSFORMATIVE NATURE OF THE USE. 8

IV. MORGAN INTERACTIVE, LEADSINGER, AND EMI ENTM'T WORLD ALL TAKE DIFFERENT APPROACHES TO FAIR USE, WHICH ARE NOT RECONCILABLE. 11

TABLE OF AUTHORITIES

Cases

Austin v. United States,
509 U.S. 602 (1993) 5

BMW of North America v. Gore,
517 U.S. 559 (1996) 3, 4, 5

Campbell v. Acuff-Rose Music,
510 U.S. 569, 114 S. Ct. 1164
(1994) 1, 6, 7, 8, 9

EMI Entm't World, Inc. v. Praddis Music, Inc.,
2007 U.S. Dist. Lexis 37074 12

Grayned v. City of Rockford,
408 U.S. 104 (1972) 2

Kelly v. Arriba Soft,
336 F.3d 811 (9th Cir. 2003) 8, 10

Leadsinger, Inc. v. BMG Music Publishing,
512 F.3d 522 (9th Cir. 2008) 11

Morganactive Songs v. K&M Fox, Inc.,
77 U.S.P.Q.2d. 1064 (S.D. Ind. 2005) 12

Perfect 10 v. Amazon.com, Inc.,
487 F.3d 701 (9th Cir. 2007) 8, 10

Princeton University Press v. Michigan Document Services,
99 F.3d 1381 (6th Cir. 1996) 2, 7

Sony Corp. of America v. Universal Studios Inc.,
464 U.S. 417 (1984) 7, 10

State Farm v. Campbell,
538 U.S. 408 (2003) 3, 4, 5

U.S. Constitution

U.S. Const. amend. I 2

U.S. Const. amend. V 1, 3, 5

U.S. Const. amend. VIII 1, 5

U.S. Const. amend. XIV 3

U.S. Const. art. I, cl. 8 9

Statutes

17 U.S.C. §107 2

17 U.S.C. §115 10

17 U.S.C. §504 2

17 U.S.C. §506 2

REPLY BRIEF OF PETITIONER PANORAMA, INC.

I. ZOMBA'S EMPHASIS ON PANORAMA'S "WILLFULNESS" INDICATES THE PUNITIVE NATURE OF THE AWARD THAT SHOULD INVOKE 5TH AND 8TH AMENDMENT SCRUTINY.

By painting Petitioner Panorama as an extremely "willful" infringer, and seeking to justify the large award by reference to Panorama's prior civil contempt,[1] Zomba amply illustrates why the award sub judice must be considered as punishment, and therefore within the ambit of the Fifth and Eighth Amendment limitations on punishment. The more scorn they heap upon Petitioner, the more the award appears to be virtually pure punishment, and should be judged as such. Moreover, Panorama's ultimate Chapter 11 bankruptcy filing, after it was unable to afford counsel at the critical stage of the damages assessment, should illustrate the drastic effects of statutory damage litigation itself apart from the actual award, with its expense and attorney fee shift, on small closely held companies and individuals.[2]

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[1] Panorama's contempt of a consent decree was already punished by entry of default as to damages.

[2] Luther Campbell, the rapper/petitioner in *Campbell v. Acuff Rose Music*, 510 U.S. 569, 114 S. Ct. 1164 (1994), was at least as willful as Petitioner here - he sought a license which was refused, and proceeded to use the copyrighted composition commercially anyway. All vigorously litigated Fair Use cases must perforce be "willful", lest there ever be any Fair Use adjudications at all.

Petitioner extensively explicated his belief in Fair Use at his deposition, so the assertion of the defense by Panorama was not as disingenuous as Zomba describes. 17 U.S.C. §107 does not require the Fair User to have knowledge of the statute. Besides, the exercise of First Amendment rights, which are closely bound up with copyright, always requires some willful conduct. Also, one must sometimes violate a decree or injunction in order to challenge it. The issue is the extent of the punishment.

Since Panorama and its employees have released "thousands" of copyrighted compositions, it still risks further theoretical liability of hundreds of millions of dollars in statutory damages, plus direct criminal liability (as 17 U.S.C. §506 provides up to 10 years imprisonment for "[any] person who willfully infringes a copyright...for purposes of commercial advantage or private financial gain".)

"Willfulness" is nevertheless an elusive standard. Petitioner fails to see the difference between his conduct compared to the conduct, say, of the infringer in *Princeton University Press v. Michigan Document Services*, 99 F.3d 1381 (6th Cir. 1996), who was found not to be willful in xeroxing course books. The situation is further confounded by the Fair Use "teaching" example in the language of 17 U.S.C. §504, which could lead a man of ordinary intelligence to conclude his actions in making disks that amateurs could use to improve vocal skills were legal.[3]

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[3] The standard for vagueness was defined by the U.S. Supreme Court in *Grayned v. City of Rockford*, 408 U.S. 104 (1972): "[A]

The Sixth Circuit has taken too restrictive a view of the Fifth Amendment punitive damage cases decided by this Court. All of those cases stem from the language of the Fifth Amendment, which does not mention civil juries, nor state courts at all:

> nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; (emphasis supplied) nor shall private property be taken for public use, without just compensation.

U.S. Constitution, Amendment V.

The Fifth Amendment, to be sure, is not directed to the States, but to federal power. The punitive damage limitation cases decided by this Court were decided under the Fourteenth Amendment, which has similar language as the Fifth ("...nor shall any State deprive any person of life, liberty, or property, without due process of law;" *U.S. Constitution, Amendment XIV.).*

Yet the policies of *Gore* and *State Farm* apply directly. It makes no difference that we are construing a statute (and a bench verdict) here, rather than a jury verdict; the issue is exercise of governmental power. As this Court noted in *BMW of North America v. Gore*, 517 U.S. 559 (1996), note 17,

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statute is unconstitutionally vague if it either: (1) fails to 'give the person of ordinary intelligence a reasonable opportunity to know what is prohibited'; or (2) fails to 'provide explicit standards for those who apply [the law].'

> "State power may be exercised as much by a jury's application of a state rule of law in a civil lawsuit as by a statute. *See New York Co. Times v. Sullivan*, 376 U.S. 254, 265 (1964) ("The test is not the form in which state power has been applied but, whatever the form, whether such power has in fact been exercised"); *San Diego Building Trades Council v. Garmon*, 359 U.S. 236, 247 (1959) ("regulation can be as effectively exerted through an award of damages as through some form of preventive relief").

Likewise, it should be noted that "civil penalties" are expressly within *BMW v. Gore's* ambit (citation omitted):

> The strict constitutional safeguards afforded to criminal defendants are not applicable to civil cases, but the basic protection against "judgments without notice" afforded by the Due Process Clause, is implicated by civil penalties. (*BMW v. Gore*, note 22)

Moreover, to the extent that statutory damages punish and deter future conduct, they are within the reach of *BMW v. Gore* and *State Farm*:

> By contrast, punitive damages serve a broader function; they are aimed at deterrence and retribution. *Cooper Industries, supra*, at 432; see also *Gore, supra*, at 568 ("Punitive damages may properly be imposed to further a State's legitimate interests in punishing unlawful conduct and deterring its repetition"); *Pacific Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 19

(1991) ("[P]unitive damages are imposed for purposes of retribution and deterrence").

State Farm v. Campbell, 538 U.S. 408 (2003)

Just as *Gore* and *State Farm* were decided under the 14th Amendment, which covers more than just jury trials, the award *sub judice* ought to be covered by the similar language of the Fifth Amendment, having emanated from a federal statute and federal court. It is submitted that it is not fair notice to say that one can be fined in federal court for copyright infringements anywhere from $250 to $150,000, plus unspecified counsel fees, unless they be found later on to be a Fair User, which is a case by case determination with no hard and fast rules.

Likewise, the Sixth Circuit has taken too restrictive a view of the few Eighth Amendment Excessive Fine cases that this Court has decided. To say, as did the Sixth Circuit, that "the Excessive Fines Clause does not apply to money damages in a civil suit" is taking a position never held by this Court. The clear arc of these cases, which Zomba glosses over, is that over time, more, not less, government activity is being limited by the Excessive Fines Clause. As this Court stated in *Austin v. United States*, 509 U.S. 602 (1993) (citations omitted),

> "The notion of punishment, as we commonly understand it, cuts across the division between the civil and the criminal law." "It is commonly understood that civil proceedings may advance punitive and remedial goals, and, conversely, that both punitive and remedial goals may be

> served by criminal penalties." Thus, the question is not, as the United States would have it, whether forfeiture under §§ 881(a)(4) and (a)(7) is civil or criminal, but rather whether it is punishment. [n.6]

The only novel question here, which Zomba won't discuss, is whether a government empowered monopolist (for indeed copyright is a form of monopoly) may wield powers of punishment, which, if exercised by the sovereign, would be a prohibited excessive fine.

II. UNDER CAMPBELL, THERE IS NO PRESUMPTION AGAINST FAIR USE BECAUSE OF COMMERCIALITY, ONLY A PRESUMPTION OF MARKET HARM IN A CASE OF "MERE DUPLICATION", WHICH THIS IS NOT.

Zomba (and the Sixth Circuit) states that "Panorama's use of Zomba's works is presumptively unfair" (Zomba brief, p. 17). But, the case that Zomba cites for that proposition, *Campbell*, 510 U.S. at 591, simply states that there is "no presumption of interference or market harm" ...[in any]... "case involving something beyond mere duplication".[4] Zomba then proceeds to mischaracterize this case as one of mere duplication, which it is not, and then, relying on

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[4] Panorama re-records the musical composition with new musical performances sans lyrics, and juxtaposes the printed lyrics for presentation on a bluescreen - not a case of "mere" duplication", such as record piracy.

language[5] in *Sony*, concludes that "Panorama's Use of the Compositions is Purely Commercial and Presumptively unfair."

However, this Court said just the opposite in *Campbell*. As Justice Souter succinctly put it,

> "the Court of Appeals faulted the District Court for "refus[ing] to indulge the presumption" that "harm for purposes of the Fair Use analysis has been established by the presumption attaching to commercial uses....The Court of Appeals, however, immediately cut short the enquiry into 2 Live Crew's Fair Use claim by confining its treatment of the first factor essentially to one relevant fact, the commercial nature of the use. The court then inflated the significance of this fact by applying a presumption ostensibly culled from *Sony*, that "every commercial use of copyrighted material is presumptively...unfair ...." *Sony*, 464 U.S., at 451. In giving virtually dispositive weight to the commercial nature of the parody, the Court of Appeals erred.

They did it again. Not only did the Sixth Circuit get hung up on commerciality, ("...Accordingly, Panorama's use is commercial in nature, a fact militating against its fair use defense." A. 14a), it also shifted the burden to Panorama to disprove market harm, citing *Princeton Univ. Press*, its own precedent

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[5] "This Court has held that purely commercial use is presumptively unfair", citing *Sony Corp. of America v. Universal Studios Inc.*, 464 U.S. 417 (1984) (Zomba brief, p. 12 – 17).

(A. 15a). This cannot be squared with Justice Souter's opinion in *Campbell* that there is "no presumption of interference or market harm" ...[in any]... "case involving something beyond mere duplication."

III. THE SIXTH CIRCUIT AND NINTH CIRCUIT ARE AT ODDS OVER ANALYZING THE TRANSFORMATIVE NATURE OF THE USE.

Campbell v Acuff Rose is not primarily a case about "parody" - it is a case about Fair Use and its myriad incarnations, parody being only one. The Ninth Circuit understood this. The most that Zomba can say about the similarities of the Ninth Circuit Fair Use cases (*Perfect 10 v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007), and *Kelly v. Arriba Soft*, 336 F.3d 811 (9th Cir. 2003)) is that they both acknowledge that the Fair Use factors must be applied to the facts of each specific case. (Zomba's Brief, p.17). Their summary description of both cases is that "the uses were fair primarily based on the transformative nature of the uses, which served the different functions of improving access to information on the internet versus artistic expression.... The Ninth Circuit also concluded that the search engine's uses of the images did not harm the photographer's market for the images." (Zomba's Brief, p. 17).

By this standard, Panorama should have been found to be a Fair User. One could just as easily say that Panorama's transformation of the material (recording a new performance without lyrics, and embedding the recording on a disk with printed lyrics momentarily displayed on a blue screen or

background, in order to allow persons to sing along with the song without memorizing the lyrics) served the different functions of improving access to musical information for purposes of preparing for live performance versus artistic expression, and the use did not harm the market for publisher's songs (which under *Campbell* would be Zomba's burden of proof anyway. Moreover, Zomba does not respond to the point that the Ninth Circuit considers the end user as well, since the "purposes of copyright", as expressed in Article I, clause 8, must always be considered. As Justice Souter noted in *Campbell* (citations omitted),

> Similarly, Lord Ellenborough expressed the inherent tension in the need simultaneously to protect copyrighted material and to allow others to build upon it when he wrote, "while I shall think myself bound to secure every man in the enjoyment of his copy right, one must not put manacles upon science." In copyright cases brought under the Statute of Anne of 1710, [n.6] English courts held that in some instances "fair abridgements" would not infringe an author's rights, *see* W. Patry, *The Fair Use Privilege in Copyright Law* 6-17 (1985) (hereinafter Patry); Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1105 (1990) (hereinafter Leval)...

Zomba and the Sixth Circuit state that consideration of the end user in Fair Use analysis is "largely irrelevant" Yet they acknowledge that a commercial end use by the consumer would have rendered the manufacturer's infringement unfair in *Sony*. They can't have it both ways. The Ninth Circuit considered the end users.

Fair Use analysis requires that the "purposes of copyright" be considered, yet the Sixth Circuit and Zomba won't acknowledge that one of the purposes of copyright, at least as expressed in 17 U.S.C. §115, is to prevent a publisher monopoly, and allow anyone to re-record a musical composition, with or without lyrics. So, without considering other policies expressed in other parts of the statute, without considering the effects upon and conduct of end users, with an evidentiary presumption of market harm never authorized by this Court, the Sixth Circuit got it wrong again.

No wonder they missed the obvious transformative aspects Karoake on at least two levels; the manufacturer and the consumer. In creating an otherwise lawful rerecorded cover version of the musical composition so that it is recognizable sans lyrics, and displaying the lyrics momentarily on a blue screen or background, so that the end user can instantly sing along with his favorite melodies, karaoke fulfills a different, limited purpose than the music it is based upon. That's the Karoake transformation that separates it from a simple audio disk with the vocals recorded aurally, which 17 U.S.C. §115 nonetheless authorizes. The effect that the Karoake disk may have on an end user is another transformation. Both must be considered as this court did in *Sony*, and as the Ninth Circuit did in *Arriba Soft* and *Perfect 10*.

It is beyond cavil that one can use a karaoke disk to learn to sing a song, a kind of teaching. Likewise, It cannot be seriously maintained that Karoake cannot possibly "teach" because it primarily "entertains", as

Zomba and the Sixth Circuit maintain. That is a false dichotomy. Anyone who has enjoyed a good speech, seminar, or music lesson surely knows that good teaching is often entertaining, and vice versa.

IV. MORGAN INTERACTIVE, LEADSINGER, AND EMI ENTM'T WORLD ALL TAKE DIFFERENT APPROACHES TO FAIR USE, WHICH ARE NOT RECONCILABLE.

Since the filing of the Petition herein, Appellee Zomba's corporate affiliate, BMG Music Publishing and Zomba Songs, Inc., have obtained an opinion in a karaoke case, *Leadsinger, Inc. v. BMG Music Publishing*, 512 F.3d 522 (9th Cir. 2008), from the Ninth Circuit, that follows the Sixth Circuit decision under consideration herein.

> The only other circuit court to address Fair Use in the context of karaoke reached the same conclusion. In *Zomba Enterprises*, the defendant, a karaoke company, argued that its use of copyrighted musical compositions was fair. 491 F.3d at 581. The Sixth Circuit held that the defendant's use of copy-righted musical compositions did not constitute "fair use." *Id.* at 584. In assessing the first § 107 factor, "the purpose and character of the use of the work at issue," the Sixth Circuit characterized the defendant's use as "commercial" and rejected the argument that karaoke is a teaching tool. *Id.* at 582-83.

So, to the extent that the Sixth Circuit erred in its Fair Use analysis, *Leadsinger* was incorrectly decided

by the Ninth Circuit, and now stands in opposition to *EMI Entm't World, Inc. v. Praddis Music, Inc.*, 2007 U.S. Dist. Lexis 37074, on the question whether or not karaoke needs a Film synch license. To the extent *Morganactive Songs v. K&M Fox, Inc.*, 77 U.S.P.Q.2d. 1064 (S.D. Ind. 2005), a lower court karaoke case relied also upon by Zomba, did not consider the overarching purposes of copyright, it, too, was wrongfully decided. The court there made a specious creative value judgment out of whole cloth - "this is not parody, its imitation". Petitioner here does not claim that karaoke is parody, simply Fair Use - that is fair for it to manufacturer a karaoke disk that doesn't compete with the main market for the recording.

In sum, allowing protection for the expression of ideas should not prevent the free flow of ideas. Since the expression of an idea stems from the thought behind the idea, when the thought behind the idea differs so does the expression. The idea behind karaoke is not to create a musical composition but to create a different medium for the expression of a musical composition. Karaoke promotes the progress of the useful art of singing. Being a medium for artistic expression, it is new expression for a new and different purpose. Karaoke is interactive in nature, much like the internet is interactive in nature and has created its own culture. It is a worldwide recognized phenomena which attests to its transformative value. Karaoke provides a different type of societal benefit than does the original because the idea for karaoke stems not from an idea for a musical composition but an idea to create a medium for expression. For that idea to express itself with its own unique expression it needs an existing recognizable work, as does parody, to do so.

One might ask does parody provide more societal benefit than karaoke, and should a handful of foreign conglomerates who own copyrights be allowed to extend their monopoly to control it?

Respectfully submitted,

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